

**U. S. CUSTOMS SERVICE
OFFICE OF STRATEGIC TRADE
REGULATORY AUDIT DIVISION**

**COMPLIANCE ASSESSMENT AUDIT
PROGRAM**



March 30, 2001

COMPLIANCE ASSESSMENT AUDIT PROGRAM

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COMPLIANCE ASSESSMENT AUDIT PROGRAM

PART 1 – BACKGROUND

1.1 OVERVIEW

On December 8, 1993, the U.S. Congress enacted Customs modernization provisions under Title VI of the North American Free Trade Agreement Implementation Act (Public Law 103-182). These provisions are commonly called the Customs Modernization Act (Mod Act). The Mod Act is based on two basic tenets, shared responsibility and informed compliance. Shared responsibility means that importers and Customs have a mutual responsibility to ensure compliance with trade and Customs laws. The purpose of informed compliance is to maximize voluntary compliance. The informed compliance concept imposed many publication, consultation, and notice obligations on Customs.

The Mod Act fundamentally altered the relationship between importers and the Customs Service. The Mod Act shifted the legal responsibility for declaring the value, classification, and rate of duty applicable to entered merchandise to the importer and requires importers to use reasonable care to assure Customs is provided accurate and timely data. Customs retains the ultimate responsibility to "fix" the value, classification, and rate of duty. Informed compliance is based on the premise that, in order to meet their responsibilities, importers need to be clearly and completely informed of their legal obligations. Under the Mod Act, Customs will spend more time and use more effective methods to inform the public with the goal to maximize voluntary compliance and reduce the number of instances where enforced compliance is necessary.

1.2 AUTHORITY TO CONDUCT AUDITS

Under 19 U.S.C. 1509, Customs may examine records to ascertain the correctness and determine the liability for duty, fees and taxes due the U.S. The Compliance Assessment (Audit) Program was developed to guide the audit team through the examination process and provide importers with the means to perform a "self-assessment."

1.3 OBJECTIVES OF COMPLIANCE ASSESSMENTS AND AUDITS

Under the shared responsibility concept of the Mod Act, the primary focus of regulatory audit is to maximize future compliance. Regulatory audits will be performed by an interdisciplinary compliance assessment team (CAT) including:

- Auditor in Charge (CAT leader)
- Auditors, including a Computer Audit Specialist (CAS)
- International Trade Specialist (ITS)
- Import Specialist (IS)
- Account Manager (if one has been assigned)
- Other specialists as needed.

A compliance assessment is a type of importer audit performed by a Customs compliance assessment team which uses traditional audit techniques, including statistical testing, and will generally cover an importer's most recently completed fiscal year. A compliance assessment tests import and financial transactions to determine whether (1) the entries of the importer met an acceptable level of compliance with Customs laws and regulations during the period under review, and (2) whether the importer had documented Customs internal controls. The results of the compliance assessment are used to recommend a compliance risk category for the company.

If the compliance assessment determines that compliance is at acceptable levels in all areas tested the audit process ends. An exit conference is held to discuss the results and the audit report is issued.

If compliance is unacceptable in any of the areas tested or Customs internal controls need to be documented, the CAT will work with the importer to determine the cause and effect (including any loss of revenue) of the noncompliance. When the cause and effect of the noncompliance has been assessed, the exit conference is held to discuss results of the audit with the importer and then the audit report is issued.

If the importer needs to improve compliance or has not documented Customs internal controls, the importer must implement a compliance improvement plan (CIP). After the importer has implemented corrective procedures, the account manager, if one has been assigned to the importer, with assistance from the audit team, will monitor the implementation of the CIP. Upon implementation of the CIP a follow-up review will be conducted to determine if procedures were corrected and compliance is at an acceptable level.

By working with importers to improve their procedures and systems, compliance should improve, resulting in accurate revenue collection and other benefits, such as fewer cargo examinations, less frequent audits and fewer reviews of entries by import specialists. If compliance does not improve, Customs will then pursue enforcement measures.

1.4 REGULATORY AUDIT PROCESS

A. Planning and Preparation for Compliance Assessment

When the actual work on the compliance assessment is scheduled to begin, the CAT leader will contact other members of the CAT. Companies are selected for compliance assessments because of their volume of imports and standing within a strategically designated industry. An initial step in preparing for the compliance assessment is the development of an Account Profile (AP). The AP is prepared by the ITS with input from the CAT members. The AP provides essential background information, Customs data, industry trends and analysis pertinent to the company's importing activities.

Before the compliance assessment begins, the CAT leader will coordinate the first planning meeting with members of the CAT. This gives the team an opportunity to discuss the individual roles, responsibilities and expectations for the team. The CAT should obtain and

review as much information as possible about the company to determine specifically what Customs programs, commodities, and trade issues to review during the compliance assessment. The CAT should use that information to tailor the existing General and Electronic Data Processing (EDP) Questionnaires (CAT Kit Exhibits 19 and 20) in order to obtain from the company the best available information relating to Customs activities. Several months before the compliance assessment is to begin, the CAT leader will contact the company to arrange an advance conference and request representation by someone at the executive level of the company to ensure a high level of cooperation.

B. Advance Conference

At the advance conference, the CAT will go over the questionnaires, explain the required records, discuss time frames, and request that a company contact be assigned. The CAT will also ask the importer to assign a company expert on its EDP system to work with the CAS in determining efficient sampling frames for transaction testing.

During the importer's review process, the CAT will monitor importer progress in accordance with the timeline established by the CAT. The CAT will outline the requirement for a plan to complete the CA within one year. Details of the process are included in CAT Kit Exhibits 27 and 28.

C. Mutually Acceptable Timetable

As soon as possible after the advance conference, the timetable should be developed jointly and be agreed to by the CAT and company representatives. The plan (see CAT Kit Exhibit 37) should specify, at a minimum, the following dates and time periods:

- Date for the importer to return completed questionnaire.
- Date to select the sample and identify the documents needed for review.
- Agreed upon time for the company to provide the requested documents to the CAT.
- Projected date for completion of field work.

D. Engagement Letter

After the company's response to the questionnaires is received and reviewed, Regulatory Audit will send a letter confirming the date for the formal entrance conference and submit a preliminary list of the types of records and documentation needed for the compliance assessment.

E. Entrance Conference

At the entrance conference, the CAT will explain the purpose, scope, sampling methodology, and the time frames for conducting the compliance assessment. The CAT Leader will provide the names and telephone numbers of the Assistant Field Director, Field Director, and the appropriate Headquarters management official. Company officials should be reminded that they should follow the established line of authority for resolving importer

issues. In addition, company officials should be reminded that responding promptly to questions and requests for information should expedite the compliance assessment.

F. Field Work

During the compliance assessment, the CAT will become familiar with the company's operating procedures and internal controls concerning Customs matters. In addition to reviewing written procedures, records and documents, such as contracts and purchase orders, the CAT will interview personnel responsible for various activities that affect information submitted to Customs. The CAT will also conduct tests to verify that operating procedures are documented and are providing accurate Customs entry data. Details of field work are included in CAT Kit Exhibit 2, part 2.

G. Reporting Results

CAT members prepare result sheets for each trade area and determine compliance levels. The result sheets contain sufficient information to fully answer the sub-objectives and establish the basis for the conclusions and recommendations. The result sheets are finalized by the responsible Regulatory Audit field office prior to release to the company for their comments.

When compliance levels are acceptable, but the importer has not documented the internal control procedures used for Customs transactions, the CAT will recommend the importer develop written internal control procedures. If compliance rates are not acceptable, the CAT will evaluate system deficiencies and provide guidance to the company during the development of a Compliance Improvement Plan (CIP).

If loss of revenue is discovered, it is Customs intent and authority to seek collection of unpaid duty and fees discovered during the compliance assessment. The use of projection serves as a practical method for both the company and Customs to quantify the effect of unpaid duty and fees. If the company does not agree to project the results, the company will be asked to determine the extent of the problem and compute lost revenue. If the company fails to complete this action, the audit team will use all reasonable means to quantify the loss of revenue, including projecting the Result of the original sample and/or reviewing additional transactions.

Upon completion of the compliance assessment, the CAT uses the compliance rates developed as a result of the review to recommend the importer's compliance risk category. Details are included in CAT Kit Exhibit 32.

H. Coordination With the Company and Customs Officials

The CAT leader will coordinate with the company and responsible Customs officials. The CAT leader will advise the company of the results of the compliance assessment and keep company officials informed of any matters that will ultimately require correction or resolution, unless, violations of the law are discovered. If such activity is discovered, the CAT will notify the Office of Investigations (OI) which has authority to make decisions about whether to proceed with the compliance assessment.

In addition, the CAT will refer to the Enforcement Evaluation Team (EET) those discrepancies or possible violations that have an impact on domestic industry, public health and safety, and/or protection of the revenue. The EET consists of a multi-disciplined group selected from the service port and from OI that meets regularly to determine courses of action on those discrepancies and possible violations. The basic role of the EET is to 1) make an early determination of the nature, extent, and impact of instances of non-compliance; 2) select the Customs response best suited to remedy the problem; and 3) follow-up on that action to ensure the non-compliance problem is solved. The CAT referrals are made to the EET at the completion of the review of each trade area when it is determined that findings meet the criteria for referral.

During the compliance assessment, when material issues are identified that can be discussed with the company, the CAT should first reach a consensus on Customs position. If it is determined that the importer is causing lengthy delays in producing the required books and records Customs will notify the importer in writing with the appropriate action to follow. Then the CAT should meet with company representatives to inform them of the finding and discuss the issues and recommendations.

I. Exit Conference

The CAT leader will arrange a formal meeting with the company after all trade areas have been evaluated. The CAT will discuss the deficiencies and errors found, and advise the company of the compliance risk category that will be recommended. If the company's compliance or lack of documented internal controls are indicative of a moderate or high risk category, the company will be given a conditional period to implement a CIP. The conditional period is six months from the date of the CA report and during that time, the importer is placed in the "standard risk" category. To be granted a conditional period, the company must agree in writing to improve its compliance to an acceptable level and correct any systemic deficiencies identified by the CAT.

J. Issuance of the Compliance Assessment Report

Based on the result sheets, the CAT leader will finalize the compliance assessment report. The report should be completed within 90 days following the exit conference unless Customs notifies the company of the reason for the delay and the anticipated completion date. A copy of the report will be issued to the company within 30 days following completion of the report. If a formal investigation is initiated, the report may not be released to the company immediately.

K. Follow-up

After the importer has implemented all of corrective actions contained in the CIP, Customs will conduct a follow-up review to determine if the corrective actions have been fully implemented and that the corrective actions were effective in correcting the deficiencies identified during the compliance assessment. Additional compliance testing will usually be needed to insure that the corrective actions taken by the company have eliminated reported

deficiencies. If the follow-up review indicates that the importer is performing at acceptable levels of compliance, the CAT will recommend that the company's compliance risk category be adjusted. If the follow-up review does not demonstrate necessary improvements, the CAT will recommend appropriate action be taken. The CAT leader will prepare a brief compliance assessment follow-up report to document the extent and the results of the follow-up review.

COMPLIANCE ASSESSMENT PROGRAM

PART 2 – COMPLIANCE ASSESSMENT (AUDIT)

2.1 OBJECTIVE

Determine whether the entries of the importer (1) met an acceptable level of compliance with Customs laws and regulations during the period under review, and (2) whether the importer had documented Customs internal controls. The results of the compliance assessment are used to assign a compliance risk category for the company.

2.2 PLANNING AND PREPARATION

Subobjective: Plan the initial scope of the compliance assessment (CA).

	Audit Step	Initials & Date	W/P Ref.
A.	Contact members of the CAT.	_____	_____
B.	Review applicable Primary Focus Industry (PFI) technical guidance.	_____	_____
C.	Check with the International Trade Specialist (ITS) at the Strategic Trade Center to determine whether a fraud investigation of the importer is either planned or in progress.	_____	_____
D.	Coordinate with the ITS to develop the importer profile.	_____	_____
E.	Based on available Customs information, primary focus and special trade issues, and discussions with CAT members, customize the General and EDP Questionnaires included in the CAT Kit (Exhibits 19 and 20).	_____	_____
F.	Hold the advance conference with the importer to explain the review process, questionnaires, discuss the importer profile, if it is available, and provide the CAT Kit to the importer.	_____	_____
G.	Prior to the entrance conference, review the company's response to questionnaires. Hold a planning meeting with CAT members to set initial scope, plan conference agenda and discuss the role of each member during the compliance assessment process.	_____	_____

	Audit Step	Initials & Date	W/P Ref.
H.	Call the designated company representative to set a final date for the entrance conference and follow-up with the engagement letter. See CAT Kit Exhibit 28 for an example and modify as needed.	_____	_____
I.	Hold the entrance conference to discuss specific compliance assessment objectives.	_____	_____
J.	If the importer has submitted a prior disclosure to Customs, the CAT should decide whether to review it as part of the CA. If it is to be reviewed, the CAT must develop appropriate testing procedures to review the disclosure. Steps taken by the company to correct procedures related to the disclosed noncompliance should be considered in the audit report recommendations.	_____	_____

2.3 ACCOUNTING AND EDP SYSTEMS

Subobjective: Gain an understanding of the company's accounting and EDP systems in order to develop appropriate compliance tests of Customs transactions.

	Audit Step	Initials & Date	W/P Ref.
A.	Document how and where the company records Customs transactions in its books and records. Select several Customs entries and "walk through" the accounting system from merchandise order to payment to Customs entry, and posting to accounting records.	_____	_____
B.	Review the chart of accounts and identify all accounts that are of interest to Customs.	_____	_____
C.	Review documentation for EDP systems used to process Customs information.	_____	_____
D.	Confirm the accuracy and completeness of potential sampling frames by comparing importer data to Customs Automated Commercial System (ACS) and/or profile information (macro test).	_____	_____
E.	Confirm the accuracy and completeness of accounting records by reconciling the applicable general ledger accounts to cost of goods sold in the importer's financial statements or tax return.	_____	_____

Revised: August 20, 2001

2.4 IMPORTER CUSTOMS PROCEDURES AND RELATED INTERNAL CONTROLS

Subobjective: Understand and evaluate the importer's organizational structure, procedures and their related internal controls as they pertain to Customs transactions, in order to facilitate compliance testing.

Audit Step	Initials & Date	W/P Ref.
A. Review as necessary to gain an understanding of the policies and procedures, including the communication of Customs information, that make up the internal control system related to trade areas listed in Section 2.7.		
B. Review the importer profile, questionnaires and company internal audit reports to identify possible weaknesses in internal control procedures that indicate additional testing is needed.		
C. Evaluate (1) the effectiveness, through compliance testing, of the importer's Customs procedures and internal controls, and (2) whether controls are documented. This will be done while performing steps 2.7A through 2.7L. Summarize results and prepare a result sheet.		

2.5 BASIS OF APPRAISEMENT

Subobjective: Confirm the acceptability of the basis of appraisal used for company imports in accordance with Section 402 Tariff Act of 1930 (19 U.S.C. 1401a), as amended by Section 201, Trade Agreements Act of 1979.

Audit Step	Initials & Date	W/P Ref.
A. Discuss with the company its response to the basis of appraisal questions in the general questionnaire and examine supporting documentation.		
B. The CAT import specialist will evaluate the importer's data and if transaction value is used, any limitations on the use of transaction value identified in Section 2.7 C-I (1). If the import specialist determines that the basis of appraisal used is acceptable, document it for the record. If the import specialist has concerns or questions about the validity of data supporting the existing basis of appraisal, the CAT should agree on necessary verification tests. Document the tests to be performed and request additional data from the company.		

2.6 SAMPLING PLAN/SAMPLE SELECTION

Subobjective: Develop a sampling plan and select statistical samples for testing the company's level of compliance with Customs laws and regulations.

Note: Whenever possible, review classification, quantity, reported value, special duty provisions in the common checks, and record keeping using a single sample. Refer to the appropriate sampling plans in the CAT Kit to select the samples.

Audit Step	Initials & Date	W/P Ref.
A. Complete the standard "common check" sampling plans (CAT Kit Exhibits 3, 4, 6, 7, 8) for testing compliance of classification, quantity, value, special duty provisions, and record keeping.	_____	_____
(1) Validate potential sampling frame(s) for each trade area as required.	_____	_____
(2) Select the most efficient sampling frame(s), and compute the sample size. In most cases, one sample may be used for the common check areas, except unreported value, which generally requires multiple samples.	_____	_____
(3) Select sample items.	_____	_____
B. Complete the "conditional check" sampling plans for applicable trade areas (Exhibits 5, 9-18 in the CAT Kit).	_____	_____
(1) Refer to audit steps for each of the "conditional check" trade areas to determine if any of them require a separate statistical sample.	_____	_____
(2) If separate samples are required, select the most efficient sampling frame(s) and compute the sample size. Each conditional check usually requires a different sample.	_____	_____
(3) Select sampling items.	_____	_____
C. Indicate below the applicable common and conditional checks that will be reviewed.		
Common Checks (All required) <ul style="list-style-type: none"> <input type="checkbox"/> Classification (including quota) <input type="checkbox"/> Quantity (including quota) <input type="checkbox"/> Value (including quota) <input type="checkbox"/> Special duty provisions in common checks <input type="checkbox"/> Record keeping 		

Audit Step	Initials & Date	W/P Ref.
Conditional Checks (Check applicable boxes) <ul style="list-style-type: none"> <input type="checkbox"/> Chapter 98 (except 9801) <input type="checkbox"/> Anti-dumping and countervailing duties <input type="checkbox"/> Warehouse (quota only) <input type="checkbox"/> FTZ (including quota) <input type="checkbox"/> Prevention of transshipment <input type="checkbox"/> Additional sampling Issues <input type="checkbox"/> Trade agreements (GSP, CBI, etc.). 		
	_____	_____

2.7 COMPLIANCE TESTING

COMMON CHECKS

Note: Steps for the common checks must be performed for every compliance assessment.

A. Classification

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for classification of imported merchandise in accordance with 19 CFR Part 152 Subpart B and the tariff code (HTSUS) found in 19 U.S.C. 1202, as interpreted by administrative and judicial rulings, and (2) whether the importer had documented Customs internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Using the sample selected in step 2.6A (CAT Kit Exhibit 3), obtain the specifications, part numbers, or other applicable descriptions, lab reports and binding rulings from the company for each selected article. Provide this information and the entry containing the article to the import specialist for a review of classification including: <ul style="list-style-type: none"> ▪ Quota ▪ Anti-dumping and countervailing Duties (ADD/CVD) ▪ Admissibility requirements ▪ Other classification issues. 	_____	_____
(2) Determine if the company's internal control policies and procedures for classification were <ul style="list-style-type: none"> a) Documented, and b) Produced accurate classifications. 	_____	_____
(3) Compute the letter of the law (LOL) compliance rate.	_____	_____

Audit Step	Initials & Date	W/P Ref.
(4) Evaluate errors to determine if errors were systemic and/or recurring. a) If systemic, recommend importer correct cause of errors. b) If recurring, project the effect and recommend collection of unpaid duties and fees. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i> c) For non-recurring errors, recommend collection of duties and fees on identified errors.	_____	_____
(5) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$) a) If internal controls were documented, compliance is at an acceptable level for classification. b) If internal controls were not documented, coordinate with the account manager to help the company develop a Compliance Improvement Plan (CIP).	_____	_____
(6) LOL error rate $>5\%$ (compliance $<95\%$) a) Apply materiality criteria (CAT Kit Exhibit 32). b) If the materiality compliance rate is acceptable, and <ul style="list-style-type: none"> ▪ Internal controls were documented; compliance is at an acceptable level for classification. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. c) If the materiality compliance rate is not acceptable, importer compliance for classification is not acceptable. Coordinate with the account manager to help the company develop a CIP.	_____	_____
(7) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.	_____	_____
(8) Discuss with the company and obtain comments.	_____	_____

B. Quantity

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for quantities of imported merchandise in accordance with CD 099 3550 061 (Instructions for Preparation of CF 7501), 19 CFR Part 141 Subpart D, and 19 U.S.C. 1484 (f), and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Using the sample selected in step 2.6 A (CAT Kit Exhibit 4), trace and reconcile the entered quantity from the 7501 and invoice on each sampled item to the quantity in company records (receiving reports, inventory and/or payment records, etc.).		
(2) Determine if the company's internal control policies and procedures for quantity were a) Documented, and b) Produced accurate entered quantities.		
(3) Compute the letter of the law compliance rate.		
(4) Evaluate errors to determine if errors were systemic and/or recurring. a) If systemic, recommend importer correct cause of errors. b) If recurring, project the effect and recommend collection of unpaid duties and fees. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i> c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(5) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$) a) If internal controls were documented, compliance is at an acceptable level for quantity. b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(6) LOL error rate $> 5\%$ (compliance $< 95\%$) a) Apply materiality criteria (CAT Kit Exhibit 32). b) If the materiality compliance rate is acceptable, and ▪ Internal controls were documented; compliance is at an acceptable level for quantity. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. c) If the materiality compliance rate is not acceptable, importer compliance for quantity is not acceptable. Coordinate with the account manager to help the company develop a CIP.		

Audit Step	Initials & Date	W/P Ref.
(7) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.	_____	_____
(8) Discuss with the company and obtain comments.	_____	_____

C. Value

Note: Audit steps are included here for transaction and computed value because they are the two most common bases of appraisalment.

C-I Transaction Value

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for the transaction value of imported merchandise in accordance with Section 402 Tariff Act of 1930 (19 U.S.C. 1401a), as amended by Section 201, Trade Agreements Act of 1979 and CFR 152 Subparts C and E, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
Reported Value		
<p>(1) Test limitations on transaction value as the basis of appraisalment. While reviewing company records for reported value for each sampled item selected in step 2.6A (CAT Kit Exhibit 6), review the company's books and records and related documents to determine if there were any of the following:</p> <ul style="list-style-type: none"> ▪ Evidence of sale for export to the U.S. ▪ Restrictions on use of imported merchandise ▪ Conditions of sale for which a value cannot be determined ▪ Proceeds of subsequent resale ▪ Related party relationship. <p>If evidence is found that transaction value is not the correct basis of appraisalment, discuss with CAT members and take appropriate action. Use this information to complete Section 2.5, Basis of Appraisalment. (No rate is computed).</p>	_____	_____
<p>(2) Determine if the declared invoice price was paid or payable as required for transaction value.</p> <p>a) Compare company records to Customs entry information.</p> <p>b) Review the effect of currency fluctuations.</p> <ul style="list-style-type: none"> ▪ Ensure that the conversion rate used was based on date of exportation. ▪ If there was a contracted currency exchange rate, determine the effect on the price paid or payable. 		

Audit Step	Initials & Date	W/P Ref.
c) Review the accuracy of reported non-dutiable charges: <ul style="list-style-type: none"> ▪ International freight and insurance ▪ Buying commissions ▪ Transportation costs after importation ▪ Customs duties ▪ Federal excise taxes. d) Review for indirect payments affecting the price paid or payable.		
(3) Determine if the company's internal control policies and procedures for reporting accurate value were <ul style="list-style-type: none"> a) Documented, and b) Produced accurate entered value. 		
(4) Compute the letter of the law compliance rate for reported value.		
(5) Evaluate errors to determine if errors were systemic and/or recurring. <ul style="list-style-type: none"> a) If systemic, recommend importer correct cause of errors. b) If recurring, project the effect and recommend collection of unpaid duties and fees. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i> c) For non-recurring errors, recommend collection of duties and fees on identified errors. 		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$) <ul style="list-style-type: none"> a) If internal controls were documented, compliance is at an acceptable level for reported value, the first part of the assessment of compliance for value. b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP. 		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$) <ul style="list-style-type: none"> a) Apply materiality criteria (See CAT Kit Exhibit 32) <i>Note: The projected absolute value of "reported value" discrepancies is included in the "overall" value discrepancy calculation in step (10) below).</i> 		

Audit Step	Initials & Date	W/P Ref.
b) If the materiality compliance rate is acceptable, and <ul style="list-style-type: none"> ▪ Internal controls were documented; compliance is at an acceptable level for reported value, the first part of the assessment of compliance for value. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. c) If the materiality compliance rate is not acceptable, importer compliance for reported value is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
Unreported Value		
(8) Based on analysis in Section 2.2 and knowledge gained from the review of other trade areas, complete the sampling plan in step 2.6A (CAT Kit Exhibit 7). Review the items selected to determine if there were any: <ul style="list-style-type: none"> a) Supplemental payments <ul style="list-style-type: none"> ▪ Quota/Visa payments ▪ Currency exchange adjustments ▪ Other. b) Additions to the price paid or payable <ul style="list-style-type: none"> ▪ Selling commissions ▪ Royalties ▪ Assists ▪ Proceeds ▪ Packing. 		
(9) Determine if the company's internal control policies and procedures for reporting supplemental payments and additions to the price paid or payable were <ul style="list-style-type: none"> a) Documented, and b) Produced accurate entered value. 		
(10) Determine the total amount of overall value discrepancies found during the CA. This includes "reported," "unreported," plus any other value variance found during the compliance assessment, both actual and/or projected from different sampling frames. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		

Audit Step	Initials & Date	W/P Ref.
(11) Apply materiality criteria.		
a) If total overall value discrepancies are immaterial based on the criteria in the materiality policy (CAT Kit Exhibit 32), and <ul style="list-style-type: none"> ▪ Internal controls were documented; compliance is at an acceptable level for overall value, the second part of the assessment of value. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. 		
b) If total overall value discrepancies are material based on the criteria in the materiality policy, importer compliance for overall value is not acceptable. Coordinate with the account manager to help the company develop a CIP.	_____	_____
(12) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.	_____	_____
(13) Discuss with the company and obtain comments.	_____	_____

C- II Transaction Value of Identical or Similar Merchandise

Section 402 of the Tariff Act of 1930, as amended by Section 201, Trade Agreements Act of 1979 requires transaction value of identical or similar merchandise to be considered as the method of appraisement if transaction value is not appropriate. However, because this method is not commonly used, audit steps for transaction value of identical or similar merchandise are not included here, but will be provided in a separate technical guide.

C- III Deductive Value

Section 402 of the Tariff Act of 1930, as amended by Section 201, Trade Agreements Act of 1979 requires deductive value to be considered as the method of appraisement if neither transaction value nor transaction value of identical or similar merchandise is appropriate. However, because this method is not frequently used, audit steps for deductive value are not included here, but will be provided in a separate technical guide.

C-IV Computed Value

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for computed value in accordance with Section 402 Tariff Act of 1930 (19 U.S.C. 1401a), as amended by Section 201, Trade Agreements Act of 1979 and CFR 152 Subparts C and E, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Obtain the computed value reconciliation data (e.g. cost submission(s) or similar documentation) covering the period under review.		
(2) Determine the reliability of foreign records used to support foreign costs in the computed value reconciliation.		
(3) Verify the accuracy of the importer's " <i>actual computed value</i> " in the reconciliation: <ul style="list-style-type: none"> a) Material costs <ul style="list-style-type: none"> ▪ Non-dutiable Chapter 98 components * ▪ Non-dutiable freight ▪ Dutiable material costs ▪ Dutiable freight ▪ Scrap costs (should be included) b) Fabrication costs c) Assists d) General expenses e) Profit f) Packing costs. 		
<i>Note: Review the accuracy of chapter 98 claimed costs included in the computed value reconciliation. This is necessary to verify the importer's actual computed value.</i> <i>Review eligibility for the importer's Chapter 98 claims under special duty provisions in the common checks and/or under the appropriate Chapter 98 section in the conditional checks portion of the audit program.</i>		
(4) Compute a variance rate for the difference in the <i>actual computed value (ACV)</i> in the importer's reconciliation reviewed in step (3) and the audited ACV. In addition to being used as one of the three rates for the materiality test for computed value, the ACV variance is also to be included in the overall value variance totaled in C-1 (10).		
(5) Verify the accuracy of the total <i>dutiable value increase or decrease</i> in the reconciliation: <ul style="list-style-type: none"> a) Review the importer's "<i>actual</i>" <i>dutiable value</i>, which is the total in step (3) less non-dutiable claims/costs. b) Review the importer's "<i>entered</i>" <i>dutiable value</i>, which is the value reported to Customs at the time of entry. c) Confirm the importer's calculation of the total <i>dutiable value increase or decrease</i> in the reconciliation [step (5)(a) less (5)(b)]. 		

Audit Step	Initials & Date	W/P Ref.
(6) Compute a variance rate for the difference in <i>the dutiable value increase or decrease</i> [amount in step (5)(c) divided by the actual computed value in the importer's reconciliation].	_____	_____
(7) Verify the accuracy of the <i>total duty increase or decrease</i> on actual dutiable value in the importer's reconciliation:		
a) Apply the appropriate duties to the "actual" dutiable value.		
b) Subtract duty paid on entries.		
c) Add merchandise processing and other fees.		
d) Calculate the total increase or decrease in duties and fees owed.	_____	_____
(8) Compute a variance rate for the difference in the <i>total duty increase or decrease</i> on actual dutiable value in the importer's reconciliation [total additional (or reduced) duties and fees divided by the total duty on the importer's reconciliation].	_____	_____
(9) Determine if the company's internal control policies and procedures for computed value were:		
a) Documented, and		
b) Produced accurate computed value.	_____	_____
(10) All materiality compliance rates $\geq 99\%$ [computed in steps (4), (6), and (8)].		
a) If internal controls were documented, compliance is at an acceptable level for computed value (See results of step C-1 (10) for "overall" compliance in value).		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
c) Recommend collection of any unpaid duties and fees.	_____	_____
(11) Any materiality compliance rate $< 99\%$ [computed in steps (4), (6), and (8)].		
a) Compliance is not acceptable for computed value. (See results of step C-1 (10) for "overall" compliance in value).		
b) Coordinate with the account manager to help the company develop a CIP.		
c) Recommend collection of any unpaid duties and fees.	_____	_____
(12) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.	_____	_____
(13) Discuss with the company and obtain comments.	_____	_____

C-V Derived Value

Section 402 of the Tariff Act of 1930, as amended by Section 201, Trade Agreements Act of 1979 requires the “derived value” to be considered as the method of appraisement if none of the other methods of appraisement listed in C-1 through C-IV is appropriate. However, because this method is not commonly used, audit steps for derived value are not included here, but will be provided in a separate technical guide.

D. Special Duty Provisions in the Common Checks (SDP)

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance, as determined by Customs law and regulations, for the Special Duty Provisions (e.g. Chapter 98, NAFTA, GSP, CBI, etc.) included in the common check sampled items, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine which, if any, common check sampled items were entered under SDP (e.g. 9802, and NAFTA, GSP, CBI, etc.). If any of the common check sample items were entered under SDP, refer to the audit program steps for the applicable SDP in the conditional checks section of the audit program to determine whether a separate sample will be selected. Even if a separate sample is to be selected, those items entered under SDP will remain in the common check sample. The difference in audit scope for these items and the separate sample is described in step (2) below.		
(2) For items selected as part of the common checks sample that were entered under SDP:		
a) If a separate sample is not selected , <ul style="list-style-type: none"> ▪ In addition to the review of classification, quantity, value, and record keeping test the eligibility (except for NAFTA) for each claimed SDP as part of the common checks review. ▪ Refer to the applicable conditional check trade area for the eligibility requirements. For example, GSP eligibility requirements are in step L-I (2). ▪ Determine specific (a)(1)(A) records required for each of the tested SDP and if not provided, count as record keeping errors. 		
b) If a separate sample is selected , <ul style="list-style-type: none"> ▪ Review eligibility for SDP only for those items in the separate sample. ▪ Do not review eligibility for SDP items in the common check sample. 		
(3) Document the errors found in step (2).		

Audit Step	Initials & Date	W/P Ref.
(4) For those SDP items in the common checks sample, determine if the company's internal control policies and procedures for SDP reviewed were a) Documented, and b) Produced accurate transactions for the SDP reviewed.		
(5) Evaluate audit results. a) If a separate sample is not selected: ▪ No compliance rate or compliance level is computed for SDP in the common checks sample. ▪ If errors were identified for SDP items, recommend collection of duties and fees related to those errors. ▪ Determine if the errors found indicate the need for a separate sample (except for NAFTA) for any of the SDP tested in the common checks sample. If so, refer to the applicable SDP audit steps in the conditional checks section of the audit program to perform the additional tests. ▪ If internal controls were documented, note that in the summary of internal controls in Section 2.4, step C. ▪ If internal controls were not documented for the SDP tested, coordinate with the account manager to help the company develop a CIP. b) If a separate sample is selected, eligibility will be addressed in the result sheet for the separate sample.		
(6) Prepare the result sheet for SDP in the common checks and refer to the EET if findings meet EET's impact level for referral. <i>Note: This result sheet requires a different format than other trade areas (e.g. no compliance rate if no separate sample).</i>		
(7) Discuss with the company and obtain comments.		

E. Record keeping

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance in maintaining, storing, and producing (a)(1)(A) information and can produce the information within a reasonable time in accordance with 19 CFR 163, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if the importer is a certified record keeper.	_____	_____
(2) If a record keeping certification agreement exists, obtain and review it and compare the record keeping system to the description in the agreement. If the system does not correspond to the agreement, refer to the corrective action section in the technical guide or contact the record keeping Field Audit Specialist.	_____	_____
(3) Because the record keeping requirement is to determine whether the importer maintains and can produce records supporting the entry information, the record keeping test is conducted concurrently with the test for classification, quantity, value and SDP (the other common checks). Review record keeping as follows: as each sampled item is reviewed for the common checks, determine if adequate and timely information supporting the Customs entry for that trade area is provided. If the records required for support are on the (a)(1)(A) list and are not provided within a reasonable time, a record keeping error exists.	_____	_____
(4) Determine if the company's internal control policies and procedures for record keeping reviewed were a) Documented, and b) Produced accurate record keeping for transactions.	_____	_____
(5) Compute the LOL rate. <i>(All records are material, so the LOL and materiality rates are the same.)</i>	_____	_____
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$) a) If internal controls were documented, compliance is at an acceptable level for record keeping. b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.	_____	_____
(7) LOL error rate $> 5\%$ (compliance $< 95\%$) a) Importer compliance for record keeping is not acceptable. b) Coordinate with the account manager to help the importer develop and implement a CIP.	_____	_____
(8) If any (a)(1)(A) record keeping errors were found in audit step (3) above, an "Enforcement Evaluation Referral Form" is prepared and forwarded to the Field Audit Specialist for Record keeping for referral to the EET. (Refer to the penalty section of the Record keeping Technical Guide or the Field Audit Specialist for additional details).	_____	_____

Audit Step	Initials & Date	W/P Ref.
(9) Prepare the result sheet.	_____	_____
(10) Discuss with the company and obtain comments.	_____	_____

CONDITIONAL CHECKS

Note: Steps for the conditional checks should be completed when either (a) the imports under review meet the criteria described in steps for each conditional check trade area or (b) the CAT determined additional testing is required.

F. Chapter 98

F-I HTSUS 9801.00.10

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for imported merchandise entered under the Subheading 9801.00.10 HTSUS in accordance with 19 CFR 10.1, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for 9801.00.10.		
a) Determine if the importer claimed 9801.00.10 during its last completed fiscal year.		
b) If the importer claimed less than \$10 million in 9801.00.10, no separate sample is required. 9801.00.10 eligibility will be reviewed as part of the SDP in the common check sample.		
<i>Note: This does not preclude the CAT from performing additional testing if needed.</i>		
c) If the importer claimed \$10 million or more in 9801.00.10, prepare a sampling plan (CAT Kit Exhibit 9) and randomly select a 9801.00.10 sample.	_____	_____
(2) To determine eligibility for each sample item:		
a) Verify U.S. origin		
b) Verify reported value		
c) Determine if drawback was claimed on the exportation.	_____	_____
(3) Determine if the company's internal control policies and procedures for 9801.00.10 were		
a) Documented, and		
b) Produced accurate 9801.00.10 entries.	_____	_____
(4) Compute the letter of the law compliance rate.	_____	_____

Audit Step	Initials & Date	W/P Ref.
(5) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for 9801.00.10.		
b) If internal controls were not documented, coordinate with account manager to help company develop a CIP.		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply the materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for 9801.00.10.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, importer compliance for 9801.00.10 is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(9) Discuss with the company and obtain comments.		

F-II HTSUS 9802.00.40 and 9802.00.50

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for imported merchandise entered under the Subheading 9802.00.40 and 9802.00.50 HTSUS in accordance with 19 CFR 10.8, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for 9802.00.40 or 9802.00.50.		
a) Determine if the importer claimed 9802.00.40/50 during its last completed fiscal year.		

Audit Step	Initials & Date	W/P Ref.
b) If the importer claimed less than \$10 million in 9802.00.40/50, no separate sample is required. 9802.00.40/50 eligibility will be reviewed as part of the SDP in the common check sample. <i>Note: This does not preclude the CAT from performing additional testing if needed.</i> c) If the importer claimed \$10 million or more in 9802.00.40/50, prepare a sampling plan (CAT Kit Exhibit 10) and randomly select a 9802.00.40/50 sample.		
(2) To determine eligibility for each sample item: a) Verify that the items were exported for repair or alteration b) Review foreign operation to determine whether the operations qualify for partial exemption under the provisions of HTSUS item 9802.00.40/50 c) Verify no drawback was claimed for the articles exported from the U.S. d) Verify that a repair or alteration took place e) Request and review importer support for costs of repair work performed abroad.		
(3) Determine if the company's internal control policies and procedures for 9802.00.40/50 were a) Documented, and b) Produced accurate 9802.00.40/50 entries.		
(4) Compute the letter of the law compliance rate.		
(5) Evaluate errors to determine if errors were systemic and/or recurring. a) If systemic, recommend importer correct cause of errors. b) If recurring, project the effect and recommend collection of unpaid duties and fees. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i> c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$) a) If internal controls were documented, compliance is at an acceptable level for 9802.00.40/50. b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		

Audit Step	Initials & Date	W/P Ref.
(7) LOL error rate >5% (compliance <95%)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for 9802.00.40/50.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, importer compliance for 9802.00.40/50 is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(9) Discuss with the company and obtain comments.		

F-III HTSUS 9802.00.60 Metal Articles Exported For Processing

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for imported merchandise entered under the Subheading 9802.00.60 HTSUS in accordance with 19 CFR 10.9, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for 9802.00.60.		
a) Determine if the importer claimed 9802.00.60 during its last completed fiscal year.		
b) If the importer claimed less than \$10 million in 9802.00.60, no separate sample is required. 9802.00.60 eligibility will be reviewed as part of the SDP in the common check sample. <i>Note: This does not preclude the CAT from performing additional testing if needed.</i>		
c) If the importer claimed \$10 million or more in 9802.00.60, prepare a sampling plan (CAT Kit Exhibit 11) and randomly select a 9802.00.60 sample.		
(2) To determine eligibility for each sample item:		
a) Verify that the article exported meets the definition of "metal" And no drawback was claimed.		
b) Verify that imported metal articles were		
▪ Manufactured in the U.S. and then exported for further processing at a foreign plant		
▪ Returned to the U.S. for further processing		
▪ Processed in the U.S. after return.		

Audit Step	Initials & Date	W/P Ref.
<ul style="list-style-type: none"> c) Ascertain that foreign processing operations qualified for HTSUS 9802.00.60 treatment. d) Obtain and verify the importer's support for: <ul style="list-style-type: none"> • Total value of the imported article ▪ Non-dutiable value claimed under HTSUS 9802.00.60. 	_____	_____
<p>(3) Determine if the company's internal control policies and procedures for 9802.00.60 were</p> <ul style="list-style-type: none"> a) Documented, and b) Produced accurate 9802.00.60 entries. 	_____	_____
<p>(4) Compute the letter of the law compliance rate.</p>	_____	_____
<p>(5) Evaluate errors to determine if errors were systemic and/or recurring.</p> <ul style="list-style-type: none"> a) If systemic, recommend importer correct cause of errors. b) If recurring, project the effect and recommend collection of unpaid duties and fees. <i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i> c) For non-recurring errors, recommend collection of duties and fees on identified errors. 	_____	_____
<p>(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)</p> <ul style="list-style-type: none"> a) If internal controls were documented, compliance is at an acceptable level for 9802.00.60. b) If internal controls were not documented, coordinate with the account manager to help company develop CIP. 	_____	_____
<p>(7) LOL error rate $> 5\%$ (compliance $< 95\%$)</p> <ul style="list-style-type: none"> a) Apply materiality criteria (CAT Kit Exhibit 32). b) If the materiality compliance rate is acceptable, and <ul style="list-style-type: none"> ▪ Internal controls were documented; compliance is at an acceptable level for 9802.00.60. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. c) If the materiality compliance rate is not acceptable, importer compliance for 9802.00.60 is not acceptable. Coordinate with the account manager to help the company develop a CIP. 	_____	_____
<p>(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.</p>	_____	_____
<p>(9) Discuss with the company and obtain comments.</p>	_____	_____

F-IV HTSUS 9802.00.80 U.S. Articles Assembled Abroad

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for imported merchandise entered under the Subheading 9802.00.80 HTSUS in accordance with 19 CFR 10.12 through 10.24, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for 9802.00.80. a) Determine if the importer claimed 9802.00.80 during its last completed fiscal year. b) If the importer claimed less than \$10 million in 9802.00.80, no separate sample is required. 9802.00.80 eligibility will be reviewed as part of SDP in the common check sample. <i>Note: This does not preclude the CAT from performing additional testing if needed.</i> c) If the importer claimed \$10 million or more in 9802.00.80, prepare a sampling plan (CAT Kit Exhibit 12) and randomly select a 9802.00.80 sample.		
(2) For each sampled item verify: a) Claimed component(s) meet requirements for HTSUS 9802.00.80 treatment ▪ No drawback claimed on component(s) ▪ Component(s) maintain identity from time of U.S. exportation through time of assembly into article imported under HTSUS 9802.00.80 ▪ Component(s) ready for assembly at time of U.S. exportation; no foreign fabrication required before assembly ▪ Foreign operation was assembly and not manufacturing. b) Origin of claimed components. c) Claimed components were actually used to produce imported article (usage). d) Claimed 9802.00.80 value of the component, whether consigned or sold to the assembler, was the cost or value at the time of export for assembly. Ensure claimed value included all costs (i.e. freight and insurance) to the U.S. port of exportation.		
(3) Determine if the company's internal control policies and procedures for 9802.00.80 were a) Documented, and b) Produced accurate 9802.00.80 entries.		
(4) Compute the letter of the law compliance rate.		

Audit Step	Initials & Date	W/P Ref.
(5) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for 9802.00.80.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for 9802.00.80.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance for 9802.00.80 is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(9) Discuss with the company and obtain comments.		

F-V HTSUS 9802.00.90 (U.S. Formed and Cut Textile Fabric Assembled in Mexico, Formerly Mexican Special Regime)

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for imported merchandise entered under the Subheading 9802.00.90 HTSUS in accordance with Section 401 of the Tariff Act of 1930 as amended, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for 9802.00.90.		
a) Determine if the importer claimed 9802.00.90 during its last		

Audit Step	Initials & Date	W/P Ref.
<p>completed fiscal year.</p> <p>b) If the importer claimed less than \$10 million in 9802.00.90, no separate sample is required. 9802.00.90 eligibility will be reviewed as part of SDP in the common check sample. <i>Note: This does not preclude the CAT from performing additional testing if needed.</i></p> <p>c) If the importer claimed \$10 million or more in 9802.00.90, prepare a sampling plan (CAT Kit Exhibit 13) and randomly select a 9802.00.90 sample.</p>		
<p>(2) To test eligibility for each sample item, verify:</p> <p>a) That claimed components meet requirements for HTSUS 9802.00.90 treatment</p> <ul style="list-style-type: none"> ▪ No drawback claimed on component(s) ▪ Fabric was wholly formed and cut in the U.S. ▪ Component(s) were exported in condition ready for assembly without further fabrication ▪ Components were not advanced in value or improved in condition in Mexico except by operations incidental to assembly ▪ Components have not lost their physical identity in the assembled article by change in form or shape. <p>b) U.S. is the country in which the components were formed and cut.</p> <p>c) That claimed components were actually used to produce imported articles.</p> <p>d) That claimed 9802.00.90 value of the component, whether consigned or sold to the assembler, was the cost or value at the time of export for assembly. Ensure claimed value included all costs (i.e. freight and insurance) to the U.S. port of exportation.</p>		
<p>(3) Determine if the company's internal control policies and procedures for 9802.00.90 were</p> <p>a) Documented, and</p> <p>b) Produced accurate 9802.00.90 entries.</p>		
<p>(4) Compute the letter of the law compliance rate.</p>		

Audit Step	Initials & Date	W/P Ref.
(5) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for 9802.00.90.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for 9802.00.90.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance for 9802.00.90 is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(9) Discuss with the company and obtain comments.		

G. Anti-dumping/Countervailing Duties

Subobjective: Determine whether the entries of the importer met an acceptable level of compliance for anti-dumping/countervailing duties in accordance with 19 U.S.C. 1673 (ADD) and 19 U.S.C. 1671 (CVD) and 19 CFR Part 351, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Obtain and review the profile and other Customs sources to determine if the company imported articles subject to		

Audit Step	Initials & Date	W/P Ref.
ADD/CVD. If this information was not provided in the profile, request it from the ITS.		
<p>(2) There is no \$10 million threshold for a separate sample for ADD/CVD. The decision whether to select separate samples is up to the CAT. Discuss ADD/CVD issues and concerns with other CAT members to determine whether sampling is required for:</p> <p>a) The accuracy of ADD/CVD included on 03 and 07 entries.</p> <p>b) ADD/CVD omitted from Customs entries.</p>		
<p>(3) If testing is required for the accuracy of ADD/CVD included on 03 and 07 entries, use the special issues matrix in step 2.6 B (CAT Kit Exhibit 14 A) to develop the sampling plan and select the sample.</p>		
<p>(4) If testing is required to determine if ADD/CVD merchandise was imported but not disclosed on a Customs entry, use the special issues matrix in step 2.6 B (CAT Kit Exhibit 14 B) to develop the sampling plan and select the sample.</p>		
<p>(5) Determine if the company's internal control policies and procedures for ADD/CVD were</p> <p>a) Documented, and</p> <p>b) Produced accurate ADD/CVD entries.</p>		
<p>(6) If errors were found when testing for undisclosed ADD/CVD</p> <p>a) Discuss with CAT members and decide course of action (i.e. audit, investigation, etc.).</p> <p>b) Discuss with STC, or EET special agent.</p>		
<p>(7) Compute the letter of the law compliance rate for sample of 03/07 entries only.</p>		
<p>(8) Evaluate errors to determine if errors were systemic and/or recurring.</p> <p>a) If systemic, recommend importer correct cause of errors.</p> <p>b) If recurring, project the effect and recommend collection of unpaid duties and fees.</p> <p><i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i></p> <p>c) For non-recurring errors, recommend collection of duties and fees on identified errors.</p>		

Audit Step	Initials & Date	W/P Ref.
(9) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for ADD/CVD.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(10) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for ADD/CVD.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance for ADD/CVD is not acceptable. Coordinate with the account manager to help the company develop a CIP.		
(11) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(12) Discuss with the company and obtain comments.		

H. Bonded Warehouse

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for quota merchandise stored in a bonded warehouse in accordance with 19 CFR Parts 19 and 132, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine by the importer profile and by answers to the questionnaire if the company used a bonded warehouse to store quota merchandise. If imports stored in a bonded warehouse were subject to quota during the period under review, continue with program step number (2). If no quota merchandise was stored in a bonded warehouse, document in working papers but do not complete the remaining steps in this section.		
(2) Using an ACS printout, verify the description and quantity for both quota and non-quota merchandise.		

Audit Step	Initials & Date	W/P Ref.
(3) If applicable, review and evaluate written procedures for re-warehousing entries.	_____	_____
(4) Using the sample selected in step 2.6 B (CAT Kit Exhibit 15), review and verify the accuracy of tariff number and quantities for quota/visa merchandise entered into the warehouse.	_____	_____
(5) Verify whether re-warehoused quota merchandise was correctly classified as quota merchandise.	_____	_____
(6) Verify that quota was available at the time merchandise was withdrawn for consumption. If tariff rate quota was involved, verify that the appropriate duty rate was paid.	_____	_____
(7) Compute the letter of the law compliance rate.	_____	_____
(8) Determine if the company's internal control policies and procedures for bonded warehouses were		
a) Documented, and		
b) Produced accurate warehouse entries for quota merchandise.	_____	_____
(9) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.	_____	_____
(10) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for quota merchandise stored in a bonded warehouse.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.	_____	_____

Audit Step	Initials & Date	W/P Ref.
(11) LOL error rate >5% (compliance <95%)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for quota merchandise stored in a bonded warehouse.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance for storing quota merchandise in a bonded warehouse is not acceptable. Coordinate with the account manager to help the company develop a CIP.	_____	_____
(12) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.	_____	_____
(13) Discuss with the company and obtain comments.	_____	_____

I. Foreign Trade Zone

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for storing or processing merchandise in a Foreign Trade Zone, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine from the importer profile, or by answers to the questionnaire, if the company uses a Foreign Trade Zone (FTZ) to store or process imported merchandise and whether any of that merchandise is subject to quota restrictions.	_____	_____
(2) If the importer stores or processes quota merchandise, proceed using the steps below under the heading "Quota/Visa Merchandise Entered in a Foreign Trade Zone."	_____	_____
(3) For storage or processing of non-quota merchandise, determine if the FTZ is considered an integral part of the company's overall importing program. It is considered "integral" if the ratio of the annual value of FTZ merchandise shipped from the zone is at least 30 percent of the total annual value of imported merchandise.	_____	_____

Audit Step	Initials & Date	W/P Ref.
(4) If the FTZ is an integral part of the company's importing program, refer to the FTZ audit program for audit steps. If it is not an integral part of the company's importing program and does not process quota merchandise, document in work papers, but do not complete remaining steps in this section.		
Quota/Visa Merchandise Entered in a Foreign Trade Zone		
(5) Obtain from company interviews or Customs sources, the names of Foreign Trade Zones used by the company. Contact the FTZ operator and the appropriate company representative to determine the volume of merchandise entered into the zone. Through these contacts, determine what reports and other information is available that can be used to identify quota merchandise placed in the FTZ.		
(6) Review reports and procedures pertaining to merchandise placed in the FTZ. Identify any obvious weaknesses in procedures. Identify the universe of merchandise admitted into the FTZ.		
(7) Based on the sampling unit determined in the sampling plan from audit step 2.6 B (CAT Kit Exhibit 16), select a statistical sample of admissions into the zone containing quota merchandise.		
(8) Review and verify the propriety and accuracy of circumstances associated with any quota/visa merchandise admitted into the FTZ. Document any quota merchandise, which was transferred to another FTZ or to a bonded warehouse.		
(9) From the sample of quota merchandise, which was transferred to another FTZ or to a bonded warehouse, verify that the merchandise was admitted to the other FTZ or entered in the warehouse as quota merchandise.		
(10) When merchandise was transferred from the FTZ or withdrawn for consumption, verify that quota was available at the time of withdrawal. If tariff rate quota was involved, verify that the appropriate duty rate was paid.		
(11) Determine if the company's internal control policies and procedures for FTZs were a) Documented, and b) Produced accurate entered FTZ entries.		
(13) Compute the letter of the law compliance rate.		

Audit Step	Initials & Date	W/P Ref.
<p>(14) Evaluate errors to determine if errors were systemic and/or recurring.</p> <p>a) If systemic, recommend importer correct cause of errors.</p> <p>b) If recurring, project the effect and recommend collection of unpaid duties and fees.</p> <p><i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i></p> <p>c) For non-recurring errors, recommend collection of duties and fees on identified errors.</p>	<hr/>	<hr/>
<p>(15) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)</p> <p>a) If internal controls were documented, compliance is acceptable for processing and storing FTZ merchandise.</p> <p>b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.</p>	<hr/>	<hr/>
<p>(16) LOL error rate $> 5\%$ (compliance $< 95\%$)</p> <p>a) Apply materiality criteria (CAT Kit Exhibit 32).</p> <p>b) If the materiality compliance rate is acceptable, and</p> <ul style="list-style-type: none"> ▪ Internal controls were documented, compliance is acceptable for processing and storing FTZ merchandise. ▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP. <p>c) If the materiality compliance rate is not acceptable, compliance for processing and storing merchandise in a FTZ is not acceptable. Coordinate with the account manager to help the company develop a CIP.</p>	<hr/>	<hr/>
<p>(17) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.</p>	<hr/>	<hr/>
<p>(18) Discuss with the company and obtain comments.</p>	<hr/>	<hr/>

J. Transshipment

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for non-transshipment of merchandise, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Obtain and review the profile and other Customs sources to determine possible transshipment. The profile should include quota closure dates for specific tariff numbers and a list of manufacturers producing merchandise that was imported by the company under review. If this information was not provided in the profile, request it from the ITS.	_____	_____
(2) Discuss transshipment issues and concerns with other CAT members to determine possible transshipment scenarios and possible audit tests.	_____	_____
(3) Determine the best universe(s) or sampling frame(s) to test for transshipment.	_____	_____
(4) Use the special issues matrix for transshipment in step 2.6 B (CAT Kit Exhibit 17) to develop the sampling plan and select the sample(s).	_____	_____
(5) Develop specific audit steps for the import specialist to test for transshipment.	_____	_____
(6) Evaluate test results and take appropriate action.	_____	_____
(7) If no transshipment was found, and		
a) Internal controls were documented; compliance is at an acceptable level for non-transshipment of merchandise.		
b) Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.	_____	_____
(8) If any transshipment was found, discuss with CAT members.		
a) Determine the best course of action (i.e. audit or investigation).		
b) Discuss with the STC special agent.		
c) Further action depends on individual circumstances.	_____	_____

K. Additional Sampling Issues (e.g. PFI issues)

Subobjective: Additional sampling issues may be identified by CAT members or other Customs officials that require testing during the compliance assessment. Determine the necessary audit steps to test these issues.

Audit Step	Initials & Date	W/P Ref.
(1) Based on discussions with CAT members, determine areas of concern.	_____	_____
(2) Using the matrix in step 2.6B (CAT Kit Exhibit 18) as an example, develop tests for any additional sampling issues.	_____	_____

L. Trade Agreements

Note: Audit steps are included here for Generalized System of Preferences and Caribbean Basin Initiative because imports claiming preference under these two trade agreements are more likely than other trade agreements to meet the threshold requiring a separate sample. Procedures and audit steps to review Caribbean Basin Initiative-Special Access Program, Andean Trade Preference Act, U.S.-Israel Free Trade Area, and Products of Insular Possessions are available from the Industry Audit Specialist for Special Trade Programs.

L-I Generalized System of Preferences (GSP)

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for GSP entries in accordance with Title V of the Trade Act of 1974 (19 U.S.C. 2461-2465), as amended by the Customs and Trade Act of 1990, and 19 CFR Part 10, Sections 10.171 through 10.178, and (2) whether the importer had documented internal controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for GSP.		
a) Determine if the importer claimed GSP during its last completed fiscal year.		
b) If the importer claimed less than \$10 million in GSP, no separate GSP sample is required. GSP eligibility (steps 2 and 3 below) will be reviewed as part of the special duty provisions in the common checks sample.		
<i>Note: This does not preclude the CAT from performing additional testing if needed.</i>		
c) If the importer claimed \$10 million or more in GSP, prepare a sampling plan (CAT Kit Exhibit 5 A) and randomly select a GSP sample. Complete all the following steps.	_____	_____

Audit Step	Initials & Date	W/P Ref.
(2) To determine eligibility for claimed GSP, verify the following for each selected GSP transaction:		
a) Country and merchandise are eligible for GSP treatment		
b) Components of imported articles (i.e. sets) are produced in the beneficiary developing company (BDC).		
c) Merchandise was directly imported into the U.S.		
d) Merchandise originates in BDC and meets 35% rule.		
(3) Determine if the company's internal control policies and procedures for GSP were		
a) Documented, and		
b) Produced accurate GSP claims.		
(4) Compute the letter of the law compliance rate.		
(5) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for GSP.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for GSP.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance is not acceptable for GSP. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		

Audit Step	Initials & Date	W/P Ref.
(9) Discuss with the company and obtain comments.		

L-II Caribbean Basin Initiative (CBI)

Subobjective: Determine whether the entries of the importer (1) met an acceptable level of compliance for CBI in accordance with Title V of the Trade Act of 1974 (19 U.S.C. 2461-2465), as amended by the Customs and Trade Act of 1990, and in 19 CFR Part 10, Sections 10.193 through 10.198, and (2) whether the importer had documented controls.

Audit Step	Initials & Date	W/P Ref.
(1) Determine if testing is required for CBI.		
a) Determine if the importer claimed CBI during its last completed fiscal year.		
b) If the importer claimed less than \$10 million in CBI, no separate CBI sample is required. CBI eligibility will be reviewed as part of the special duty provisions in the common check sample. <i>Note: This does not preclude the CAT from performing additional testing if needed.</i>		
c) If the importer claimed \$10 million or more in CBI, prepare a sampling plan (CAT Kit Exhibit 5 B) and randomly select a CBI sample.		
(2) To determine eligibility for claimed CBI, verify the following for each selected CBI transaction:		
a) Country is eligible for CBI treatment		
b) Merchandise is eligible for CBI treatment		
c) Merchandise was directly imported into the U.S.		
d) Merchandise originates in BDC and meets 35% rule.		
(3) Determine if the company's internal control policies and procedures for CBI were		
a) Documented, and		
b) Produced accurate CBI claims.		
(4) Compute the letter of the law compliance rate.		

Audit Step	Initials & Date	W/P Ref.
(5) Evaluate errors to determine if errors were systemic and/or recurring.		
a) If systemic, recommend importer correct cause of errors.		
b) If recurring, project the effect and recommend collection of unpaid duties and fees.		
<i>Note: If projections are not appropriate, all reasonable means will be used to determine the unpaid duties and fees.</i>		
c) For non-recurring errors, recommend collection of duties and fees on identified errors.		
(6) LOL error rate $\leq 5\%$ (compliance $\geq 95\%$)		
a) If internal controls were documented, compliance is at an acceptable level for CBI.		
b) If internal controls were not documented, coordinate with the account manager to help the company develop a CIP.		
(7) LOL error rate $> 5\%$ (compliance $< 95\%$)		
a) Apply materiality criteria (CAT Kit Exhibit 32).		
b) If the materiality compliance rate is acceptable, and		
▪ Internal controls were documented; compliance is at an acceptable level for CBI.		
▪ Internal controls were not documented; coordinate with the account manager to help the company develop a CIP.		
c) If the materiality compliance rate is not acceptable, compliance is not acceptable for CBI. Coordinate with the account manager to help the company develop a CIP.		
(8) Prepare the result sheet and refer to the EET if findings meet EET's impact level for referral.		
(9) Discuss with the company and obtain comments.		

L-III Caribbean Basin Initiative – Special Access Program

Audit steps for Caribbean Basin Initiative – Special Access Program will be provided by the Industry Audit Specialist (IAS) for Trade Agreements.

L-IV Andean Trade Preference Act

Audit steps for Andean Trade Preference Act will be provided by the IAS for Trade Agreements.

L-V U.S.-Israel Free Trade Area

Audit steps for U.S.-Israel Free Trade Area will be provided by the IAS for Trade Agreements.

L-VI Products of Insular Possessions

Audit steps for Products of Insular Possessions will be provided by the IAS for Trade Agreements.

2.8 COMPLIANCE ASSESSMENT CLOSURE

Subobjective: Perform steps required to close the compliance assessment and issue the audit report.

Audit Step	Initials & Date	W/P Ref.
(1) Summarize compliance testing results for each trade area in the working papers, and designate an overall compliance risk category.	_____	_____
(2) Meet with CAT members to discuss results of the audit and plan the exit conference.	_____	_____
(3) Finalize the draft audit report.	_____	_____
(4) Hold the exit conference with the company to discuss audit results and Mod Act requirements.	_____	_____
(5) Issue the compliance assessment report.	_____	_____

COMPLIANCE ASSESSMENT AUDIT PROGRAM

PART 3 - FOLLOW-UP

3.1 OBJECTIVE

Determine if corrective actions specified in the Compliance Improvement Plan (CIP) were effective in correcting the deficiencies identified during the compliance assessment.

Audit Step	Initials & Date	W/P Ref.
A. Review the compliance assessment report, working papers, and CIP related to each area of noncompliance identified during the compliance assessment.	_____	_____
B. Meet with the account manager to determine if CIP has been fully implemented.	_____	_____
C. Check with the Strategic Trade Center Office of Investigation agent to determine if any investigative activity would preclude the follow-up.	_____	_____
D. Meet with CAT members to determine the scope of the follow-up review.		
1. Determine if a reasonable time period elapsed since completion of the CIP for a representative sample of transactions to be selected.		
2. Determine if the account manager, port officials, ITM, etc. have concerns that impact follow-up.		
3. Plan for the follow-up entrance conference.	_____	_____
E. Hold the entrance conference to discuss the purpose of the follow-up and Mod Act requirements.	_____	_____
F. Review the action taken by the company to correct the problem(s).	_____	_____
G. Develop a sampling plan and compliance tests for the areas previously identified as non-compliant.	_____	_____
H. Select the sample(s) and test the selected records.	_____	_____
I. Evaluate testing results in coordination with the account manager.	_____	_____
J. Hold an exit conference with the company.	_____	_____
K. Draft a short form report.	_____	_____
L. Issue the report to the original recipients of the audit report.	_____	_____